

**BEFORE THE
PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2018-257-WS**

**Re: Application of Kiawah Island Utility, Inc., for Adjustment of Rates and Charges and
Modifications to Certain Terms and Conditions for the Provision of Water and Sewer
Service.**

CERTIFICATE OF SERVICE

I, Carl E. Bell, hereby certify that I have, on this 11th day of April 2019, served the **PROPOSED ORDER** of Kiawah Island Utility, Inc., by email upon the parties listed below:

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April 11, 2019
Columbia, South Carolina

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April 11, 2019

The Honorable Jocelyn G. Boyd
Chief Clerk and Administrator
Public Service Commission of South Carolina
101 Executive Center Drive, Suite 100
Columbia, South Carolina 29210

Re: Docket No. 2018-257-WS. Application of Kiawah Island Utility, Incorporated for Adjustment of Rates and Charges and Modifications to Certain Terms and Conditions for the Provision of Water and Sewer Service

Dear Ms. Boyd:

Enclosed please find Kiawah Island Utility, Inc.'s proposed order in the above referenced matter. The Order has been circulated to the parties, and I understand the ORS does not object to it. I will also transmit an MS Word copy of the proposed order to the Commission by email.

With best wishes, I am,

Sincerely yours,

s/ Charles L.A. Terreni

Charles L.A. Terreni

c: Counsel of Record

Enclosures (as stated)

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2018-257-WS ORDER NO. 2019-_____
APRIL __, 2019

IN RE:)	
Application of Kiawah Island Utility, Inc. for)	ORDER APPROVING
Adjustment of Rates and Charges and)	INCREASE AND
Modifications to Certain Terms and)	CHANGES IN RATES
Conditions for the Provision of Water and)	AND CHARGES
Sewer Service)	
_____)	

I. INTRODUCTION

This matter is before the Public Service Commission of South Carolina (“the Commission”) on the Application of Kiawah Island Utility, Inc. (“KIU” or “the Company”) filed on November 2, 2018, requesting an increase in rates and charges for water and sewer services KIU provides to its customers within its authorized service area in South Carolina and a decrease in its charges for fire hydrant service provided to fire departments. The Application was filed pursuant to S.C. Code § 58-5-240 (2015) and 26 S.C. Code Regs. 103-712.4.A and 103-512.4.A.

KIU’s South Carolina operations are classified by the National Association of Regulatory Utility Commissioners (“NARUC”) as a Class A water and wastewater utility according to water and sewer revenues reported on its Application for the test year ending December 31, 2017. The Commission-approved service area for KIU is Kiawah Island in Charleston County, South Carolina. KIU is wholly-owned by SouthWest Water Company (“SWWC”).

By letter dated November 16, 2018, the Chief Clerk of the Commission instructed KIU to publish a Notice of Filing, one time, in newspapers of general circulation in the area affected by

KIU's Application. The Chief Clerk issued a revised Notice of Filing on November 21, 2018. The Notice of Filing described the Application and advised all interested persons desiring to participate in the scheduled proceedings of the manner and time in which to petition to intervene in the proceedings as a party of record. In the letter of November 21, 2018, the Chief Clerk also instructed KIU to furnish a copy of the Notice of Filing via U.S. Mail, bill insert, or electronic mail, to each customer affected by the Application. KIU filed an Affidavit of Publication on December 11, 2018 demonstrating that the Notice of Filing had been duly published and filed an Affidavit of Mailing on December 12, 2018 certifying compliance with the Chief Clerk's instructions.

The South Carolina Office of Regulatory Staff ("ORS") is a party to the docket by virtue of S.C. Code § 58-4-10(B). The Town of Kiawah Island ("Town") petitioned to intervene and was granted intervenor status on January 9, 2019. The South Carolina Consumer Advocate was notified of this proceeding pursuant to S.C. Code § 37-6-604(C) but did not elect to intervene.

On December 18, 2018, Chief Colleen Walz filed a complaint on behalf of the St. John's Fire District ("Fire District") challenging KIU's fire hydrant service fees.¹ KIU moved to treat Chief Walz's complaint as an unopposed petition for intervention, and the Fire District joined in the motion. The Commission granted KIU's motion and granted the Fire District intervention.²

During the proceedings, KIU was represented by Charles L.A. Terreni, and Scott Elliott, the ORS was represented by Jeffrey M. Nelson, and Alexander W. Knowles, the Fire District was represented by Donald H. Howe, and the Town was represented by Dwayne Green.

¹ *Colleen Walz, Chief of St. John's Fire District v. Kiawah Island Utility, Inc.*, Docket No. 2018-212-W.

² Order No. 2019-37. The parties of record in this docket are KIU, the ORS, the Town, and the Fire District. References in this Order to "Parties" indicates all parties of record.

A Stipulation between KIU, the ORS, and the Fire District resolving the issues in this proceeding was filed with the Commission on March 19, 2019 and was supported by the testimony of the parties appearing at the hearing. The Stipulation is attached as Exhibit 1 to this Order. The Town did not enter into the Stipulation but informed the Commission by letter dated March 20, 2019 it supported all but two of its terms, to wit: 1) the elimination of the fire hydrant service fee, and 2) the recommended 14.25 % operating margin for KIU.³

At the hearing on March 28, 2019, KIU presented direct and rebuttal testimony of Becky Dennis, Director of Operations of KIU; direct and rebuttal testimony of Craig Sorensen, President of KIU and the SWWC Alabama and South Carolina business units, direct testimony of Kirk Michael, Chief Financial Officer and Treasurer of KIU and SWWC, and direct testimony of Mujeeb Hafeez, Accounting Director of KIU and SWWC. The direct and rebuttal testimony of KIU's witness Donald Burkett, Executive Vice President of Burkett Burkett & Burkett Certified Public Accountants, P.A., was stipulated into the record with the consent of the parties.

The ORS presented the direct testimony of Aisha L. Butler, Senior Auditor of the ORS's Audit Department, and the direct testimony of Matthew P. Schellinger, II, Regulatory Analyst of the ORS's Utility Rates and Services Division. Ms. Butler described the ORS's examinations of the Application and KIU's books and records, as well as the accounting and pro forma adjustments recommended by the ORS. Mr. Schellinger focused on KIU's compliance with Commission rules and regulations, the ORS's business audit of KIU's water and sewer systems, test year and proposed revenue, customer growth, and performance bond requirements. The Fire District was represented by Donald Howe. The Town did not appear at the hearing.

³ Letter of Craig Weaver, Mayor of Kiawah Island, March 19, 2019.

In considering the Application of KIU, the Commission must ascertain and fix just and reasonable rates, standards, classifications, regulations, practices, and measurements of service to be furnished. The Commission must consider the Company's total revenue requirements and review the operating revenues and operating expenses of KIU to establish adequate and reasonable levels of revenues and expenses.⁴ The Commission will consider a fair operating margin for KIU based on the record, and any increase must be just and reasonable and free of undue discrimination.

After hearing the testimony and reviewing the Stipulation, the Commission makes these findings of fact and reaches the conclusions of law set forth herein.

II. FINDINGS OF FACT

1. KIU is a water and sewer utility providing water and sewer service in its assigned service area on Kiawah Island, Charleston County, South Carolina. KIU's operations in South Carolina are subject to the jurisdiction of the Commission, under S.C. Code. Section 58-5-10 *et. seq.* (2015)

2. The appropriate test year period for this proceeding, selected by the Company, is January 1, 2017 through December 31, 2017.

KIU proposed the test year of January 1, 2017 through December 31, 2017, in its Application, and it was used by the Company and the ORS in this proceeding. No party contested the use of the test year proposed by KIU in its Application, and both KIU and the ORS submitted evidence regarding revenues, expenses, and proposed adjustments using the test year ending December 31, 2017.

⁴ References to the dollar amounts of revenues, expenses, and revenue requirement reflect KIU's combined operations.

3. The operating margin methodology is appropriate for determining the lawfulness of the Company's rates and in fixing just and reasonable rates.

KIU requested rates set on an operating margin basis. While there is no requirement that operating margin methodology be used in determining a fair rate of return, KIU requested operating margin treatment in its Application, and the ORS performed its audit and calculations and recommendation based on an operating margin methodology. No party contested KIU's use of the operating margin. The weight of the evidence, including the testimony of witnesses Burkett, Sorensen, Schellinger, and Butler supports the use of an operating margin methodology.

4. KIU requested an increase in rates and charges of \$825,623 for its combined operations to produce net operating income of \$1,354,021 after the proposed increase.⁵

5. Eliminating the hydrant service fee is the result of a reasonable business decision that is in the best interests of KIU's customers and is in the public interest.

KIU currently charges the Fire District \$134.79 per fire hydrant to defray the cost of maintaining the fire hydrants for firefighting purposes; in its Application, KIU proposed to reduce the fee to \$110 per fire hydrant. The revenue generated by the fire hydrant service fee during the test year was \$66,991. Mr. Schellinger testified that the ORS agrees with KIU's calculation of the cost of maintaining the fire hydrants. In the Stipulation, KIU, the ORS, and the Fire District propose to eliminate the hydrant service fee currently charged by the Company. Mr. Sorensen testified the impact on the average residential customer of absorbing the cost of the fire hydrant service into rates would be about \$0.74 per month.

⁵ See Application, Exhibit B, Schedule B.

According to testimony, the Fire District is a special purpose district that serves an area of Charleston County which includes John's Island, Wadmalaw Island, Kiawah Island, and Seabrook Island. Charleston County allocates funding to the Fire District with revenue raised from property taxes throughout the special purpose district. Some of the area served by the Fire District does not have fire hydrants. All residents of the special purpose district pay taxes to Charleston County at the same millage rate. Therefore, the Fire District argues those taxpayers who do not enjoy fire hydrant service are indirectly subsidizing those who do.

KIU's President, Craig Sorensen, testified it is in the best interest of KIU and its customers to eliminate the hydrant service fee. Mr. Sorensen said KIU has an interest in maintaining good relations with the Fire District, and that it was obvious this issue would remain a point of controversy if not put to rest. In Mr. Sorensen's view, it would cost more to try to preserve the hydrant service fee than it would to eliminate it and absorb the cost of fire hydrant service into rates.

By correspondence, the Town argued against eliminating the fire hydrant service fee at this time. In his letter, Mayor Weaver stated while the Town is not opposed in principle to eliminating the fire hydrant service fees, it should be done only as part of a "global settlement" in which all three entities charging fire hydrant service fees cease to charge them simultaneously. The Fire District, through counsel, explained that KIU is the only entity charging fire hydrant service fees that is subject to the Commission's jurisdiction. Therefore, the Fire District has raised the issue in the current rate case. He stated the Fire District had ceased to pay the fire hydrant service fees to the other entities and will have to resolve its disputes with them in the court system which has jurisdiction over the other water suppliers.

6. The ORS and KIU agreed to an increase of \$511,406 which would produce net operating income for margin of \$1,285,231 and an operating margin of 14.25%. See Exhibit 2.

7. An operating margin of 14.25% is appropriate for KIU.

The ORS's Regulatory Analyst, Schellinger, described KIU as a "well-operated water and wastewater utility with an established record of providing quality service to its customers".⁶ He said KIU "demonstrated practical and forward-thinking decision making in its efforts to examine and pursue additional service enhancements" and concluded "Customers benefit from the Company's continued investments in infrastructure maintenance".⁷

KIU President, Craig Sorensen, testified in favor of the 14.25% operating margin proposed under the Stipulation. KIU had controlled its costs and requested a moderate increase. Mr. Sorensen noted the requested operating margin was within the range of operating margins the Commission has recently granted other water and sewer utilities. Sorensen also described new services provided by KIU such as customers' option to pay by credit card, and the Company has lowered its non-revenue water rate to 6.4%.

The Commission may also review the service provided by the utility to its customers. The record evidences that KIU has provided excellent customer service. The Company maintains a duty operator on call 24 hours per day, seven days a week. Ms. Dennis testified the Company has had only one customer complaint to the ORS since the last rate case, a high-usage complaint that was resolved amicably. KIU's facilities are also well-maintained as evidenced by its site

⁶ Direct Testimony of Matthew P. Schellinger II, p. 7, l. 1-13.

⁷ Id.

restoration after work was completed on its second water supply line. Further, the evidence presented by Ms. Dennis demonstrates KIU's commitment to customer service.

8. KIU incurred an additional \$68,919 in rate case expenses that were reviewed by the ORS and submitted to the Commission after the hearing. The ORS does not object to the recovery of these expenses over a 3-year amortization period. The Commission finds the Company's rate case expenses were reasonably and prudently incurred and should be recovered over a three-year period.

9. The Company's total annual revenue requirement, including the amortized rate case expenses, is \$9,018,251.

The final schedule of approved revenues and expenses is attached to this Order as Exhibit 2 and reflects KIU's test year revenues and expenses after accounting and pro forma adjustments, and the operating margin under the presently approved rates for the test year. The terms of the Stipulation, as updated by the schedule attached as Exhibit 2 to this Order, are just and reasonable. They are summarized below.

TABLE A

Total Operating Revenues	\$ 8,506,845
Total Operating Expenses	<u>\$ 7,161,186</u>
Less: Interest Expense	<u>\$ (485,075)</u>
Net Income (Loss) for Margin	<u>\$ 860,584</u>
Operating Margin	<u>10.12%</u>

The following table illustrates the effect of the accounting and pro forma adjustments agreed to in Exhibit 2:

TABLE B

Total Operating Revenues	\$ 9,018,251
Total Operating Expenses	<u>\$ 7,291,744</u>

Less Interest Expense	\$ (485,075)
Add: Customer Growth	\$ 5,159
Add: Amortization of EDIT	\$ 38,640
Net Income (Loss) for Margin	<u>\$ 1,285,231</u>
Operating Margin	<u>14.25%</u>

10. On March 1, 2019, KIU incurred a \$0.11 per 1,000 gal. increase in the cost of water purchased from St. John's Water Company.

KIU is allowed to pass through the cost of increases in purchased water pursuant to Orders No. 2002-285 and 2002-517. However, KIU witness Dennis testified KIU has decided not to increase its water rates to reflect the pass-through charge until this rate case is resolved because KIU does not want to cause confusion among its customers by having two separate rate increases take effect in succession within a short period of time. Instead, KIU intends to add the pass-through charge at the time the rates approved in this case are ordered and include them in the same notice to its customers. Ms. Dennis explained KIU's shareholders will absorb the increased cost of water until the notice is given and the new pass-through rates take effect. The Commission finds this approach reasonable and beneficial to the customers.

11. The Stipulation also provides that KIU will issue a one-time credit to its customers on their monthly bills no later than ninety (90) days after the Commission issues its final Order in this case to reflect a refund of savings generated from the reduction in the Company's federal tax expense for the period January 1, 2018 to April 24, 2019. The refund will be calculated using the methodology agreed to by the ORS and KIU in a Memorandum of Understanding entered on September 24, 2018 and admitted as an exhibit to the Direct Testimony of Donald Burkett. The Commission finds this method of refunding the tax savings to be reasonable and notes that the single credit approach adopted in the Stipulation is favorable to KIU's customers.

12. The Company's proposed rates, attached as Exhibit 3, are just and reasonable.

The proposed rates in KIU's Application would have resulted in a 9.9% increase in rates. The proposed increase is now 6.88%, about one-third less than those originally requested. We conclude the proposed rates are just and reasonable, fairly distribute the costs of providing service, and allow KIU to continue to provide its customers with adequate water and sewer service.

III. CONCLUSIONS OF LAW

Based upon the findings of fact as set forth herein and the record of the instant proceeding, the Commission makes the following conclusions of law:

1. The Commission is vested with authority to regulate rates of every public utility in this state and to ascertain and fix such just and reasonable rates for service. S.C. § 58-5-210 (2015).

2. Operating Margin is the appropriate methodology in this case to fix just and reasonable rates for KIU. The Commission has carefully considered the facts supporting the use of the operating margin method in accordance with the admonition of the Supreme Court of South Carolina in *Heater of Seabrook, Inc. v. Public Service Com'n of South Carolina*, 324 S.C. 56, 478 S.E.2d 826 (1996). The Commission further notes that the Supreme Court of South Carolina has implicitly approved the use of the operating margin in its prior decisions involving KIU, most recently in *Kiawah Property Owners Group v. Public Service Com'n of South Carolina*, 359 S.C. 105, 597 S.E.2d 145 (2004).

3. A regulated utility is entitled to "an opportunity to earn a fair and reasonable return." *Southern Bell Telephone & Telegraph Co. v Public Service Comm. of S.C.*, 270 S.C. 590, 600, 244 S.E.2d 278, 283 (1978). An operating margin for KIU's combined water and sewer operations of 14.25% accomplishes a fair and reasonable return.

4. For the test year ending December 31, 2017, the appropriate operating revenues, as adjusted in this Order, are \$8,506,845 and the appropriate operating expenses, as adjusted in this Order, are \$7,161,186.

5. Using the approved operating margin of 14.25%, KIU is permitted an overall revenue requirement of \$9,018,251.

6. For KIU to have an opportunity to earn the revenue requirement, KIU may establish rates and charges which will produce additional revenues of \$511,406.

7. The rates approved in this Order are just and reasonable without undue discrimination and are also designed to meet the revenue requirement of the Company.

IT IS THEREFORE ORDERED:

1. The Stipulation attached as Exhibit 1 is approved, adopted, and accepted into the record and is incorporated into and made part of this Order by reference. Further, the Commission finds the Stipulation is in the public interest and constitutes a reasonable resolution of this proceeding.

2. The accounting adjustments reflected in Exhibit 2 are approved, adopted and accepted into the record and are incorporated and made part of this Order by reference.

3. The proposed rates, fees, and charges attached as Exhibit 3 to this Order are just and reasonable and will allow KIU to continue to provide adequate water and wastewater services to its customers. The Commission further finds that the additional terms and conditions set forth in the Stipulation are reasonable and fair.

4. The rates, charges, terms, and conditions approved shall be those agreed upon in Exhibit 3 attached hereto and incorporated by reference and shall be effective for service rendered by the Company on or after the date of this Order.

5. Based upon the rates and charges and the accounting adjustments approved herein, an operating margin of 14.25% is approved for KIU.

6. The Company shall continue to maintain current performance bonds in the amounts of \$350,000 for water operations and \$350,000 for wastewater operations pursuant to S.C. Code § 58-5-720.

7. The Company's books and records shall be maintained according to the NARUC Uniform System of Accounts.

8. The Company shall provide its customers with thirty (30) days' notice by mail of the rate changes approved in this Order and of the increase in rates caused by the change in purchased water that took effect on March 1, 2019.

9. KIU shall issue within ninety (90) days of the date of this Order a one-time credit on its customers' monthly bills representing a refund of the savings generated by the reduction in federal income tax rate in the Tax Cuts and Jobs Act.

10. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Comer H Randall

ATTEST:

Justin T. Williams, Vice-Chairman

EXHIBIT 1
(Stipulation)

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2018-257-WS

IN RE: Application of Kiawah Island Utility,)	
Inc. for Adjustment of Rates and Charges)	
and Modifications to Certain Terms)	
and Conditions for the Provision of Water)	STIPULATION
and Sewer Service)	

This Stipulation is entered into by Kiawah Island Utility, Inc. ("KIU" or "Company") and the Office of Regulatory Staff ("ORS") and the other undersigned parties to the above-referenced case (hereinafter collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, on October 17, 2018, KIU filed an Application for Approval of Water and Sewer Rates, Terms and Conditions ("Application") with the Public Service Commission of South Carolina ("Commission");

WHEREAS, the Parties entering into this Stipulation are parties of record in the above-captioned docket;

WHEREAS, after the ORS concluded its audit of KIU's application, the Parties engaged in discussions and agree to stipulate to the following facts:

1. An increase in water and sewer rates is necessary.
2. After the conclusion of the ORS's audit it proposed certain adjustments in its prefiled Direct Testimony and KIU indicated in its prefiled Rebuttal Testimony that it agreed with all the ORS's proposed adjustments excepting the recommended adjustment to operating margin.

3. The agreed upon adjustments are more particularly set forth in Exhibit "1" to this Stipulation.

4. KIU should be entitled to an adjustment in rates and charges sufficient to generate additional revenues for the test year of \$482,369 based on the test year revenues after adjustments proposed by ORS in its pre-filed testimony and exhibits, this amount to be adjusted for additional rate case expenses incurred through the date of the hearing and verified by ORS.

5. This additional revenue would result in an operating margin of 14.25% which is appropriate for KIU in this application based on its record of improvements in customer service, operational efficiency, and financial stability.

6. KIU will reflect in requested rate base of its next general rate filing all adjustments to rate base ordered by the Commission in the current case as well as their effects on related annual expenses such as depreciation and interest.

7. KIU will consult with the ORS before deploying an Advanced Metering Infrastructure ("AMI") in its system.

8. KIU will confer with ORS to determine whether a cost of service study should be conducted before KIU's next rate case.

9. The Tax Cuts and Jobs Act was enacted in December 2017 which changed the federal income tax rate from 34% to 21%. KIU will refund savings related to revenues generated from the reduction in federal tax expense for the period January 1, 2018 to April 24, 2019, in a single credit on its customers' monthly bill no later than ninety (90) days after the Commission issues its final

order in this case. The refund will be calculated according to the methodology agreed to by the ORS and KIU in the Memorandum of Understanding dated September 14, 2018 and included in the direct testimony of Donald Burkett.

10. KIU will cease charging fees for fire hydrants to the St. John's Fire Department upon issuance of a final order in this case and will recover the cost of maintaining the fire hydrants, which the parties agree is reasonable, through rates.

11. The Parties agree that this Stipulation does not constrain, inhibit or impair in any way the arguments or positions they may choose to assert in future proceedings.

12. The Parties agree not to offer evidence contradicting the facts in this Stipulation in this proceeding.

13. Each Party acknowledges its consent and agreement to this Stipulation by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of this Stipulation. Facsimile signatures and email signatures shall be as effective as original signatures to bind any Party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Stipulation.

14. The Parties agree that in the event any Party should fail to indicate its consent to this Stipulation and the terms contained herein, then this Stipulation shall be null and void and will not be binding on any Party and will not be offered as evidence by any Party.

[PARTY SIGNATURES TO FOLLOW ON SEPARATE PAGES]

KIAWAH ISLAND UTILITY, INC.

By: 

Its: MTB 2018

March 18, 2019

OFFICE OF REGULATORY STAFF

By: 
Its: 
March 15, 2019

ST. JOHN'S FIRST DISTRICT

By: Donald N. Dine
Its: General Counsel

March 18, 2019

Kiawah Island Utility, Inc.
Docket No. 2018-257-WS
Operating Experience, Operating Margin, & Rate Base
For the Test Year Ended December 31, 2017
Combined Operations

<u>Description</u>	(1) <u>Application</u> <u>Per</u> <u>Books</u> <u>\$</u>	(2) <u>Accounting</u> <u>&</u> <u>Pro Forma</u> <u>Adjustments</u> <u>\$</u>	(3) <u>After</u> <u>Accounting &</u> <u>Pro Forma</u> <u>Adjustments</u> <u>\$</u>	(4) <u>Proposed</u> <u>Increase</u> <u>\$</u>	(5) <u>After</u> <u>Proposed</u> <u>Increase</u> <u>\$</u>
<u>Operating Revenues:</u>					
Utility Operating Revenues	7,973,304	533,541 (1)	8,506,845	482,369 (22)	8,989,214
<u>Total Operating Revenues</u>	<u>7,973,304</u>	<u>533,541</u>	<u>8,506,845</u>	<u>482,369</u>	<u>8,989,214</u>
<u>Operating Expenses:</u>					
Operating Expenses	5,562,259	(232,138) (2)	5,330,121	0	5,330,121
Depreciation & Amortization	695,384	(14,121) (3)	681,263	0	681,263
Amortization Expense - Sludge & Tank Painting	0	68,601 (4)	68,601	0	68,601
Amortization of Water Rights - Impact Fees	47,715	132 (5)	47,847	0	47,847
Utility Regulatory Assessment Fees	0	40,133 (6)	40,133	2,276 (23)	42,409
Property Taxes	297,289	225,455 (7)	522,744	0	522,744
Payroll Taxes	55,767	19,316 (8)	75,083	0	75,083
Other Taxes and Licenses	61,890	24,434 (9)	86,324	1,447 (24)	87,771
State Income Taxes	28,393	30,093 (10)	58,486	23,932 (25)	82,418
Federal Income Taxes	358,711	(125,352) (11)	233,359	95,490 (26)	328,849
Deferred Federal Income Taxes	(567,125)	567,125 (12)	0	0	0
Deferred State Income Taxes	(29,447)	29,447 (13)	0	0	0
<u>Total Operating Expenses</u>	<u>6,510,836</u>	<u>633,125</u>	<u>7,143,961</u>	<u>123,145</u>	<u>7,267,106</u>
<u>Total Operating Income</u>	<u>1,462,468</u>	<u>(99,584)</u>	<u>1,362,884</u>	<u>359,224</u>	<u>1,722,108</u>
<u>Other Operating Income</u>					
Gain (Losses) from Disposition of Utility Property	524	(524) (14)	0	0	0
Add: Customer Growth	0	0	0	5,132 (27)	5,132
Add: Amortization of Excess Deferred Income Tax	0	0	0	38,640 (28)	38,640
<u>Net Operating Income</u>	<u>1,462,992</u>	<u>(100,108)</u>	<u>1,362,884</u>	<u>402,996</u>	<u>1,765,880</u>
Less: Interest Expense	317,362	167,647 (15)	485,009	0	485,009
<u>Net Income for Margin</u>	<u>1,145,630</u>	<u>(267,755)</u>	<u>877,875</u>	<u>402,996</u>	<u>1,280,871</u>
<u>Operating Margin</u>	<u>14.37%</u>		<u>10.32%</u>		<u>14.25%</u>
<u>Original Cost Rate Base: Combined</u>					
Gross Plant in Service	51,814,468	(94,986) (16)	51,719,482	0	51,719,482
Accumulated Depreciation	(19,448,388)	(949,398) (17)	(20,397,786)	0	(20,397,786)
Net Plant in Service	32,366,080	(1,044,384)	31,321,696	0	31,321,696
Contributions in Aid of Construction (CIAC)	(17,368,022)	0	(17,368,022)	0	(17,368,022)
Accumulated Amortization of CIAC	7,541,327	386,653 (18)	7,927,980	0	7,927,980
Construction Work in Progress	16,424	0	16,424	0	16,424
Cash Working Capital	0	666,265 (19)	666,265	0	666,265
Prepayments (ASR Inv.)	167,807	0	167,807	0	167,807
Accumulated Deferred Income Taxes	(816,452)	(158,270) (20)	(974,722)	0	(974,722)
Excess Deferred Income Tax Liability	(470,064)	(61,576) (21)	(531,640)	0	(531,640)
<u>Total Rate Base</u>	<u>21,437,100</u>	<u>(211,312)</u>	<u>21,225,788</u>	<u>0</u>	<u>21,225,788</u>

EXHIBIT 2
Operating Experience, Operating Margin & Rate Base
For the Test Year Ended December 31, 2017
Combined Operations

Kiawah Island Utility, Inc.
Docket No. 2018-257-WS
Operating Experience, Operating Margin, & Rate Base
For the Test Year Ended December 31, 2017
Combined Operations

<u>Description</u>	(1) <u>Application Per Books</u> \$	(2) <u>Accounting & Pro Forma Adjustments</u> \$	(3) <u>After Accounting & Pro Forma Adjustments</u> \$	(4) <u>Proposed Increase</u> \$	(5) <u>After Proposed Increase</u> \$
<u>Operating Revenues:</u>					
Utility Operating Revenues	7,973,304	533,541 (1)	8,506,845	511,406 (22)	9,018,251
<u>Total Operating Revenues</u>	<u>7,973,304</u>	<u>533,541</u>	<u>8,506,845</u>	<u>511,406</u>	<u>9,018,251</u>
<u>Operating Expenses:</u>					
Operating Expenses	5,562,259	(209,165) (2)	5,353,094	0	5,353,094
Depreciation & Amortization	695,384	(14,121) (3)	681,263	0	681,263
Amortization Expense - Sludge & Tank Painting	0	68,601 (4)	68,601	0	68,601
Amortization of Water Rights - Impact Fees	47,715	132 (5)	47,847	0	47,847
Utility Regulatory Assessment Fees	0	40,133 (6)	40,133	2,413 (23)	42,546
Property Taxes	297,289	225,455 (7)	522,744	0	522,744
Payroll Taxes	55,767	19,316 (8)	75,083	0	75,083
Other Taxes and Licenses	61,890	24,434 (9)	86,324	1,534 (24)	87,858
State Income Taxes	28,393	28,941 (10)	57,334	25,373 (25)	82,707
Federal Income Taxes	358,711	(129,948) (11)	228,763	101,238 (26)	330,001
Deferred Federal Income Taxes	(567,125)	567,125 (12)	0	0	0
Deferred State Income Taxes	(29,447)	29,447 (13)	0	0	0
<u>Total Operating Expenses</u>	<u>6,510,836</u>	<u>650,350</u>	<u>7,161,186</u>	<u>130,558</u>	<u>7,291,744</u>
<u>Total Operating Income</u>	<u>1,462,468</u>	<u>(116,809)</u>	<u>1,345,659</u>	<u>380,848</u>	<u>1,726,507</u>
<u>Other Operating Income</u>					
Gain (Losses) from Disposition of Utility Property	524	(524) (14)	0	0	0
Add: Customer Growth	0	0	0	5,159 (27)	5,159
Add: Amortization of Excess Deferred Income Tax	0	0	0	38,640 (28)	38,640
<u>Net Operating Income</u>	<u>1,462,992</u>	<u>(117,333)</u>	<u>1,345,659</u>	<u>424,647</u>	<u>1,770,306</u>
Less: Interest Expense	317,362	167,713 (15)	485,075	0	485,075
<u>Net Income for Margin</u>	<u>1,145,630</u>	<u>(285,046)</u>	<u>860,584</u>	<u>424,647</u>	<u>1,285,231</u>
<u>Operating Margin</u>	<u>14.37%</u>		<u>10.12%</u>		<u>14.25%</u>
<u>Original Cost Rate Base: Combined</u>					
Gross Plant in Service	51,814,468	(94,986) (16)	51,719,482	0	51,719,482
Accumulated Depreciation	(19,448,388)	(949,398) (17)	(20,397,786)	0	(20,397,786)
Net Plant in Service	32,366,080	(1,044,384)	31,321,696	0	31,321,696
Contributions in Aid of Construction (CIAC)	(17,368,022)	0	(17,368,022)	0	(17,368,022)
Accumulated Amortization of CIAC	7,541,327	386,653 (18)	7,927,980	0	7,927,980
Construction Work in Progress	16,424	0	16,424	0	16,424
Cash Working Capital	0	669,137 (19)	669,137	0	669,137
Prepayments (ASR Inv.)	167,807	0	167,807	0	167,807
Accumulated Deferred Income Taxes	(816,452)	(158,270) (20)	(974,722)	0	(974,722)
Excess Deferred Income Tax Liability	(470,064)	(61,576) (21)	(531,640)	0	(531,640)
<u>Total Rate Base</u>	<u>21,437,100</u>	<u>(208,440)</u>	<u>21,228,660</u>	<u>0</u>	<u>21,228,660</u>

Exhibit 3

Schedule of Rates and Charges

KIAWAH ISLAND UTILITY, INC.

31 Sora Rail Road
 Johns Island, S.C. 29455
 (843) 768-0641

Schedule of Rates and Charges

FILED PURSUANT TO DOCKET NO. 2017-257-WS - ORDER NO. 2019-

APPROVED BY THE PSC ON APRIL 25, 2019

RATE SCHEDULE NO. 1 RESIDENTIAL SERVICE

- AVAILABILITY** - Available within the Company's service area.
APPLICABILITY - Applicable to any residential customer for any purpose.

Water Service Charges

A.	Base Facilities Charge		
	5/8" meter	\$36.65 / mo.	Pass Through Changes
	3/4" meter	\$54.98 / mo.	
	1" meter	\$91.62 / mo.	
	1 1/2" meter	\$183.25 / mo.	
	2" meter	\$293.21 / mo.	
	3" meter	\$641.40 / mo.	
	4" meter	\$1,840.73 / mo.	

Base Facilities Charge for water service with meters larger than 4" shall be:

$$\frac{\text{Maximum recommended meter capacity (gpm)} \times \$36.65 \text{ per mo.}}{20 \text{ gpm}}$$

B.	Consumption Charge		
	All up to 11,000 gals./mo.	\$4.50 /1000 gal.	\$4.61 /1000 gal.
C.	Excess Consumption Charge #1		
	All over 11,000 gal./mo. and up to 50,000 gal./ mo.	\$5.04 /1000 gal.	\$5.15 /1000 gal.
D.	Excess Consumption Charge #2		
	All over 50,000 gal./mo.	\$5.38 /1000 gal.	\$5.49 /1000 gal.

Sewer Service Charges

A.	Base Facilities Charge	
	5/8" water meter	\$28.00 / mo.
	3/4" water meter	\$42.00 / mo.
	1" water meter	\$69.99 / mo.
	1 1/2" water meter	\$139.98 / mo.
	2" water meter	\$223.98 / mo.
	3" water meter	\$489.95 / mo.
	4" water meter	\$1,514.79 / mo.

Base Facilities Charge for sewer service where water service is through meters larger than 4" shall be:

$$\frac{\text{Maximum recommended meter capacity (gpm)} \times \$28.00 \text{ per mo.}}{20 \text{ gpm}}$$

B.	Consumption Charge based on Water Usage	
	All up to 11,000 gals./mo.	\$0.74 /1000 gal.

RATE SCHEDULE NO. 2 COMMERCIAL SERVICE

- AVAILABILITY** - Available within the Company's service area.

- APPLICABILITY** - Applicable to any commercial or master metered residential customer for any purpose except hotel or motel use (see Rate Schedule No. 3).

Water Service Charges

A.	Base Facilities Charge	
	5/8" meter	\$36.65 / mo.
	3/4" meter	\$54.98 / mo.
	1" meter	\$91.62 / mo.
	1 1/2" meter	\$183.25 / mo.
	2" meter	\$293.21 / mo.
	3" meter	\$641.40 / mo.
	4" meter	\$1,840.73 / mo.

Base Facilities Charge for water service with meters larger than 4" shall be:

$$\frac{\text{Maximum recommended meter capacity (gpm)} \times \$36.65 \text{ per mo.}}{20 \text{ gpm}}$$

B.	Consumption Charge	\$5.38 /1000 gal.	\$5.49 /1000 gal.
		for all consumption	

Sewer Service Charges

A.	Base Facilities Charge	
	5/8" water meter	\$28.00 / mo.
	3/4" water meter	\$42.00 / mo.
	1" water meter	\$69.99 / mo.
	1 1/2" water meter	\$139.98 / mo.
	2" water meter	\$223.98 / mo.
	3" water meter	\$489.95 / mo.
	4" water meter	\$1,514.79 / mo.

Base Facilities Charge for sewer service where water service is through meters larger than 4" shall be:

$$\frac{\text{Maximum recommended meter capacity (gpm)} \times \$28.00 \text{ per mo.}}{20 \text{ gpm}}$$

B.	Consumption Charge based on Water Usage	\$2.86 /1000 gal.
		for all consumption

RATE SCHEDULE NO. 3 HOTEL AND MOTEL SERVICE

- AVAILABILITY** - Available within the Company's service area.
APPLICABILITY - Applicable to all hotel and motel customers for any purpose.

Water Service Charges

Base Facilities Charge	\$14.72 /mo./room	
All Consumption	\$5.38 /1000 gal.	\$5.49 /1000 gal.

Sewer Service Charges

Base Facilities Charge	\$11.19 /mo./room
All Consumption	\$2.86 /1000 gal.

RATE SCHEDULE NO. 4 IRRIGATION SERVICE

- AVAILABILITY** - Available within the Company's service area. The Company reserves the right to limit or reduce the irrigation service available when, in its sole judgment, its water system conditions require such restrictions.

- APPLICABILITY - Applicable only to customers who anticipate substantial potable water use which will not be returned to the Company's wastewater treatment system such as irrigation. Such water consumption shall be metered separately from any water use supplied under other rate schedules.

Water Service Charges

A.	Base Facilities Charge	
	5/8" meter	\$36.65 / mo.
	3/4" meter	\$54.98 / mo.
	1" meter	\$91.62 / mo.
	1 1/2" meter	\$183.25 / mo.
	2" meter	\$293.21 / mo.
	3" meter	\$641.40 / mo.
	4" meter	\$1,840.73 / mo.

Base Facilities Charge for water service with meters larger than 4" shall be:

$$\frac{\text{Maximum recommended meter capacity (gpm)} \times \$36.65 \text{ per mo.}}{20 \text{ gpm}}$$

B.	Consumption Charge		
	All up to 50,000 gals./mo.	\$5.04 /1000 gal.	\$5.15 /1000 gal.
C.	Excess Consumption Charge		
	All over 50,000 gal./mo.	\$5.38 /1000 gal.	\$5.49 /1000 gal.

RATE SCHEDULE NO. 5 FIRE HYDRANT SERVICE

- AVAILABILITY - Available within the Company's service area.
APPLICABILITY - Applicable to fire hydrants connected to Company water mains.

Water Service Charges

When temporary water service from a hydrant is requested by a contractor or others, a meter will be installed and the charge will be:

\$8.00 for each day of use, PLUS \$5.38/1000 gals for ALL water used, PLUS a \$50 security deposit 5.49 /1000 gal.

Note: The only portion of this rate to change with the pass through is the per thousand gallon charge as shown

RATE SCHEDULE NO. 6 GOLF COURSE IRRIGATION

- AVAILABILITY - Available within the Company's service area.
APPLICABILITY - Applicable for golf course irrigation where the customer agrees to take as a minimum quantity the treated effluent from the wastewater treatment plant.

Water Service Charges

A.	Effluent water will be billed at a rate of:	
	Base Facilities Charge per Golf Course	\$4,648.72 / mo.
	Consumption	\$0.20 /1000 gal.
B.	Deep well water will be billed at a rate of:	
	Base Facilities Charge per Golf Course	\$1,138.80 / mo.
	Consumption	\$0.30 /1000 gal.
C.	Potable water will be billed at a rate of:	
	Base Facilities Charge per Golf Course	\$871.45 / mo.

Consumption

\$5.38 /1000 gal.

\$5.49 /1000 gal.

RATE SCHEDULE NO. 7 FIRE LINE SERVICE

AVAILABILITY - Available within the Company's service area.
APPLICABILITY - Applicable for private fire lines.

Water Service Charges**Base Facilities Charge**

2" Line	\$8.65 / mo.
3" Line	\$15.83 / mo.
4" Line	\$27.43 / mo.
6" Line	\$54.87 / mo.
8" Line	\$96.11 / mo.

TAP FEES - RESIDENTIAL, COMMERCIAL

	<u>Water Tap-In Fee</u>	<u>Sewer Tap-In Fee</u>
5/8" meter	\$500.00	\$500.00
3/4" meter	\$750.00	\$750.00
1" meter	\$1,250.00	\$1,250.00
1 1/2" meter	\$2,500.00	\$2,500.00
2" meter	\$4,000.00	\$4,000.00
3" meter	\$8,750.00	\$8,750.00

Water tap-in fee and sewer tap-in fee for water and sewer service where the water meter is larger than 3" shall be:

$$\frac{\text{Maximum recommended meter capacity (gpm)} \times \$500.00}{20 \text{ gpm}}$$

TAP FEES - IRRIGATION

	<u>Water Tap-In Fee</u>
5/8" meter	\$500.00
3/4" meter	\$750.00
1" meter	\$1,250.00
1 1/2" meter	\$2,500.00
2" meter	\$4,000.00
3" meter	\$8,750.00

Water tap-in fee and sewer tap-in fee for water and sewer service where the water meter is larger than 3" shall be:

$$\frac{\text{Maximum recommended meter capacity (gpm)} \times \$500.00}{20 \text{ gpm}}$$

TAP-IN FEES - HOTEL

Water Tap-In Fee	\$220.00 /room
Sewer Tap-In Fee	\$220.00 /room

TAP IN FEES - FIRE LINES

2" Line	\$4,000.00
3" Line	\$8,750.00
4" Line	\$25,000.00

Fire line tap-in fee where the line is larger than 4" shall be:

$$\frac{\text{Maximum recommended meter capacity (gpm)} \times \$500.00}{20 \text{ gpm}}$$

**CHARGES FOR SERVICE DISCONTINUANCE, RECONNECTION
AND OTHER MISCELLANEOUS SERVICE CHARGES**

1. When a customer requests discontinuance of service for the purpose of not receiving a monthly statement, the Company shall charge the equivalent of three months of basic facilities charges for both water and sewer service and require payment of such charges when for any reason service is restored to that particular customer.
2. Reimbursement of cost to make repairs to services or meters caused by others will be charged at actual cost as allowed per PSC Regulations 103-726 and R.103-733.5
3. Whenever service is disconnected for violation of rules and regulations, nonpayment of bills or fraudulent use of service, the Company will charge a \$70.00 fee to restore service.
4. A service fee of \$25.00 shall be charged by the Company for non-routine, non-emergency service performed for the customer on the customer's side of the meter.
5. Delinquent Notification Fee - A fee of \$20.00 shall be charged each customer to whom the Company mails a notice of discontinuance of service as required by the Commission rules prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating that cost.
6. Customer Initiation Fee - A one-time fee of \$25.00 will be charged to each new account to defray costs of initiating service.
7. Return Check Fee - When a check is returned from the bank for Non-sufficient Funds, a fee equal to the maximum amount permitted by S.C. Code Ann. Section 34-11-70 will be charged.
8. Safe Drinking Water Fee - If the South Carolina Department of Health & Environmental Control charges the Company an assessment based on customer units served by the Company, the Company may bill its customers for the applicable unit cost of that assessment. The charge shall be identified as a separate billed item, identified as the SWD fee and included in the total of the service billing.

PURCHASED WATER ADJUSTMENT

Kiawah Island Utility, Inc. ("Company") purchases its potable water from the St. John's Water Company ("St. John's"), which in turn purchases the water from the Commissioners of Public Works of the City of Charleston ("CPW"). Whenever CPW increases the price of water sold to St. John's, the increase in price is passed through to the Company pursuant to the water purchase agreement between the Company and St. John's.

The water purchase agreement also provides, as part of the purchased water price, a pro-rata share of St. John's annual operation and maintenance costs to be charged to the Company. Therefore, the Company's revenue requirement for purchased water is made up of the water unit price per thousand gallons and the operation and maintenance costs charged by St. John's.

Accordingly, whenever there is a price adjustment for the purchase of potable water to Kiawah Island Utility, Inc. by the St. John's Water Company, the following billing adjustment

shall be made by the Company to its customer rates:

1. Billing Adjustment

In the event that St. John's adjusts (whether an increase or decrease) the unit price per 1,000 gallons and/or the operation and maintenance charges related to the purchase of potable water, the following billing adjustment practice would apply:

- (a) If the unit price is adjusted the cost change per 1,000 gallons would be passed through to the customers as an adjustment in like amount to the consumption charge on their water bill.

Example: The unit price of purchased water is increased by two cents per 1,000 gallons. The consumption charge on the customer's bill would reflect a two cent per 1,000 gallon increase.

- (b) If the pro-rata operation and maintenance charge is adjusted the cost change per 1,000 gallons (based on the most recent 12 months of potable water billed) would be passed through to the customers as an adjustment to the consumption charge on their water bill.

Example: The annual operation and maintenance charge is increased by \$18,000 and the most recent 12 months of potable water billed is 900,000 thousand gallons. The consumption charge on the customers bill would reflect a two cent per 1,000 gallon increase.

2. Notification

Any special billing adjustment shall not be billed until the following conditions are met:

- (a) The Company shall furnish the South Carolina Public Service Commission satisfactory proof of the basis for the adjustment and the billing method to be utilized at least sixty (60) days prior to its proposed effective date.
- (b) The Company shall furnish thirty (30) days prior written notice to the customers affected by the Purchased Water Adjustment advising them of the basis for the billing adjustment and its effective date.